

North Dakota REV-E-NEWS



Pam Sharp, Director

OFFICE OF MANAGEMENT AND BUDGET

600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400

February 2010

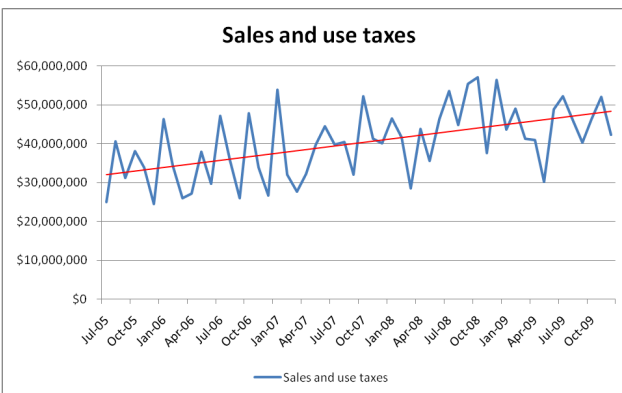
MESSAGE FROM THE DIRECTOR

For the month of January, actual revenue collections fell short of the legislative forecast by approximately \$29.6 million. However most of this variance can be attributed to timing. For the biennium to date, general fund revenues are ahead of forecast by \$4.2 million, or about .4 percent. If adjusted for timing differences, biennium to date revenues would exceed the forecast by over \$31.0 million.

Timing differences result in tax payments submitted to the state at the end of a month being recorded as revenue for the subsequent month. Timing issues are especially prevalent in months where the last day of the month occurs on a weekend, as was the case in January. The Office of State Tax Commissioner has reported that \$10.0 million in sales tax revenues and \$17.5 million in individual income tax collections were recorded on the first day of February, but relate to the month of January. This amounts to an additional \$27.5 million that, under different circumstances, would have been recorded as January revenue.

Significantly impacting January revenues is a one-time adjustment recorded by the Office of State Treasurer to correct an error recorded by that office in the previous month. The Office of State Treasurer incorrectly deposited \$12.2 million in the general fund in December 2009, recorded as mineral leasing fees. In January, the Office of State Treasurer corrected this error.

In addition to timing differences that can skew month to month comparisons, many tax types are subject to volatility and vary greatly from month to month. Even though collections may be on an upward trend, reflecting continuing economic growth, month to month swings are common, making comparisons to previous months and to forecasted amounts difficult. The following table shows monthly state general fund sales tax collections from July 2005 through January 2010. Despite significant monthly swings, the overall trend shows continuing growth.



Even though the monthly revenue variance appears significant, analysis indicates that if timing differences and the effect of one-time adjustments are accounted for, January revenues would have been \$39.7 million higher, resulting in a positive variance for the month of \$10.1 million.

OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the price of North Dakota crude is around \$72 per barrel. Production dropped slightly in December due to snow and cold weather, but continues well above the forecast. The current rig count is 94, compared to 61 operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Dec 2009	Nov 2009	Oct 2009
ND sweet crude price per barrel	\$63.96	\$67.06	\$65.52
Production (barrels/day)	241,500	245,500	240,000
Drilling permits	99	67	86
Producing wells	4,623	4,637	4,606
Rig count	74	63	55

Comments or Questions?

Contact

Pam Sharp, Director

Phone: 701-328-2680

Fax : 701-328-3230

E-mail:

psharp@nd.gov

Visit the North Dakota web site

www.nd.gov

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium January 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	52,943,000	44,850,649	(8,092,351)	-15.3%	341,858,000	324,184,925	(17,673,075)	-5.2%
Motor Vehicle Excise Tax	3,320,000	3,886,044	566,044	17.0%	21,377,000	30,054,042	8,677,042	40.6%
Individual Income Tax	51,910,000	47,293,147	(4,616,853)	-8.9%	171,267,000	173,378,144	2,111,144	1.2%
Corporate Income Tax	7,802,000	8,704,526	902,526	11.6%	42,989,000	36,293,735	(6,695,265)	-15.6%
Insurance Premium Tax	50,000	82,219	32,219	64.4%	11,835,000	8,920,934	(2,914,066)	-24.6%
Financial Institutions Tax	112,000	(4,335)	(116,335)	-103.9%	112,000	(989,269)	(1,101,269)	-983.3%
Oil & Gas Production Tax*	7,462,000		(7,462,000)	-100.0%	37,947,000	32,718,333	(5,228,667)	-13.8%
Oil Extraction Tax*	1,956,000		(1,956,000)	-100.0%	11,958,000	38,281,667	26,323,667	220.1%
Gaming Tax	799,165	506,528	(292,637)	-36.6%	4,467,549	4,579,646	112,097	2.5%
Lottery								
Cigarette & Tobacco Tax	1,939,000	1,998,919	59,919	3.1%	13,984,000	13,756,358	(227,642)	-1.6%
Wholesale Liquor Tax	593,000	652,233	59,233	10.0%	3,994,000	4,441,513	447,513	11.2%
Coal Conversion Tax	1,612,000	2,087,688	475,688	29.5%	9,992,000	11,962,840	1,970,840	19.7%
Mineral Leasing Fees	1,800,000	(9,633,194)	(11,433,194)	-635.2%	6,600,000	4,005,256	(2,594,744)	-39.3%
Departmental Collections	6,697,160	7,911,441	1,214,281	18.1%	19,153,865	20,032,268	878,403	4.6%
Interest Income	627,565	907,358	279,793	44.6%	7,184,606	6,289,081	(895,525)	-12.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers	161,000	938,829	777,829	483.1%	483,000	1,474,494	991,494	205.3%
Total Revenues and Transfers	139,783,890	110,182,052	(29,601,838)	-21.2%	1,000,202,020	1,004,383,968	4,181,948	0.4%

* Oil and gas production and extraction tax collections totaled \$30.6 million in January. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through January, oil tax collections totaling \$79.6 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium January 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	January 2008	January 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	46,418,372	44,850,649	(1,567,723)	-3.4%	292,268,295	324,184,925	31,916,629	10.9%
Motor Vehicle Excise Tax	6,347,205	3,886,044	(2,461,161)	-38.8%	37,982,072	30,054,042	(7,928,030)	-20.9%
Individual Income Tax	47,649,535	47,293,147	(356,388)	-0.7%	150,361,691	173,378,144	23,016,453	15.3%
Corporate Income Tax	7,427,359	8,704,526	1,277,166	17.2%	52,270,967	36,293,735	(15,977,232)	-30.6%
Insurance Premium Tax	25,340	82,219	56,878	224.5%	11,831,283	8,920,934	(2,910,349)	-24.6%
Financial Institutions Tax	27,988	(4,335)	(32,323)	-115.5%	893,069	(989,269)	(1,882,338)	-210.8%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	953,442	506,528	(446,914)	-46.9%	5,330,002	4,579,646	(750,356)	-14.1%
Lottery								
Cigarette & Tobacco Tax	1,829,727	1,998,919	169,191	9.2%	13,659,065	13,756,358	97,294	0.7%
Wholesale Liquor Tax	613,082	652,233	39,150	6.4%	4,175,256	4,441,513	266,257	6.4%
Coal Conversion Tax	1,334,457	2,087,688	753,232	56.4%	13,980,175	11,962,840	(2,017,335)	-14.4%
Mineral Leasing Fees	1,532,324	(9,633,194)	(11,165,518)	-728.7%	6,741,873	4,005,256	(2,736,617)	-40.6%
Departmental Collections	6,288,122	7,911,441	1,623,319	25.8%	19,419,020	20,032,268	613,248	3.2%
Interest Income	1,150,679	907,358	(243,321)	-21.1%	13,173,422	6,289,081	(6,884,341)	-52.3%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	159,257	938,829	779,572	489.5%	514,471	1,474,494	960,023	186.6%
Total Revenues and Transfers	121,756,890	110,182,052	(11,574,838)	-9.5%	808,600,661	1,004,383,968	195,783,307	24.2%

* Oil and gas production and extraction tax collections totaled \$30.6 million in January. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through January, oil tax collections totaling \$79.6 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

January 2010 revenues were \$110.2 million, \$29.6 million less than projected in the legislative forecast. However, if timing differences and the effect of one-time adjustments are accounted for, January revenues would have been \$39.7 million higher, resulting in a positive variance for the month of \$10.2 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month of January are \$8.1 million less than the legislative forecast. However, this variance is entirely related to timing. Tax Department analysis indicates that \$10.0 million received on February 1 is attributable to the month of January but will be recorded as February revenue because of when it was received. Sales tax collections for the biennium to date are 5.2 percent less than the legislative forecast, but 10.9 percent higher than during the first seven months of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$566,000 for the month and \$8.7 million for the biennium to date.
- **Individual income tax** collections fell short of the legislative forecast by \$4.6 million for the month. As with sales tax, this variance can be attributed to timing. The Tax Department has determined that \$17.5 million received by the state on February 1 is attributable to the month of January, but will be recorded as February revenue. Biennium to date collections exceed the legislative forecast by \$2.1 million and exceed the 2007-09 biennium by \$23.0 million.
- **Corporate income tax** collections exceed the legislative forecast by \$900,000 for the month but are \$6.7 million short of the legislative forecast for the biennium to date.
- **Oil and gas tax** collections for the month are \$30.6 million, \$21.2 million more than estimated in the legislative forecast. The legislative forecast assumed January oil tax collections of \$9.5 million based on December prices of \$47 per barrel and production of 205,000 barrels per day. December prices actually averaged \$64 per barrel and production averaged over 241,000 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.
- **Gaming tax** collections were nearly \$300,000 less than forecast, but like other variances, this difference is attributable to timing. Due to the month ending on a weekend, some January collections were received during the first week of February and will be recorded as February revenue.
- **Mineral leasing fees** are reflected as a negative \$9.6 million. This is due to a one-time adjustment recorded by the Office of State Treasurer to correct an error recorded by that office in the previous month. The Office of State Treasurer incorrectly deposited \$12.2 million in the general fund in December 2009, recorded as mineral leasing fees. In January, the Office of State Treasurer corrected this error. The correction of \$12.2 million is reflected as part of the \$9.6 million negative amount shown for mineral leasing fees in January.
- **Departmental collections** were \$1.2 million higher than estimated due primarily to the timing of telecommunications tax receipts. Pursuant to NDCC 57-34-05, any amount collected in excess of the \$8.4 allocated to counties, is transferred to the general fund. The transfer was anticipated for March, but was made in January and is included in this variance.

OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110
BISMARCK, ND 58505-0400
<http://www.nd.gov/fiscal> or www.nd.gov/omb